

News Release

Embargoed until 2301 UTC 17 July 2022

S&P Global Japan Business Outlook

Business confidence reaches joint-highest on record

Key findings

Confidence rises in both manufacturing and services

Profit expectations improve only slightly amid strong cost projections

Sustained optimism around future staff hiring and investment

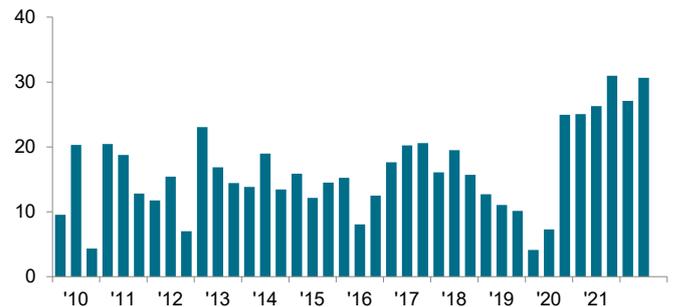
Japanese private sector firms were highly upbeat regarding the year ahead in June, according to the latest S&P Global Business Outlook survey. Expectations regarding output over the next 12 months reached a joint-series high, equalling the record set last October. Firms often hoped that a broad recovery from the COVID-19 pandemic now that restrictions had been lifted would gather momentum. This in turn would lift domestic and global demand further, while the easing of border restrictions are also expected to provide a boost to the Japanese economy. That said, there were concerns regarding surging raw material prices and the sharp depreciation of the yen, as well as the ongoing impact of the Russia-Ukraine war, particularly in the manufacturing sector.

A net balance of +31% of Japanese firms expected business activity to increase over the next 12 months in June. This marked a four-point improvement from +27% in February, and marked the joint-strongest degree of optimism in the 13-year history of the survey. Moreover, Japan was the sole country of those monitored to register an improvement in confidence, and only Brazil posted a stronger level of positive sentiment overall. Both goods producers and service providers registered an improvement in expectations, as service providers registered the strongest level of optimism since the survey began. Manufacturers also saw a slight uptick in confidence, with projections around future output the most upbeat since October 2021.

Despite the improved outlook, panellists highlighted inflationary pressures as a major concern, with firms citing this as a key threat to future activity. Businesses were concerned that the instability in raw material,

Japan Business Activity expectations

% net balance



Source: S&P Global.

Data were collected 13-27 June 2022.

Comment

Commenting on the Japan Business Outlook survey data, Usamah Bhatti, Economist at S&P Global Market Intelligence, said:

"There have been significant developments both in Japan and globally since the previous business outlook survey in February. Many countries including Japan have changed stance on COVID-19 and are learning to live with the virus thus lifting domestic restrictions on activity. As a result, a net balance of +31% of firms foresaw an uplift in activity over the coming year in June - a joint series record (with October 2021).

"Forecasts regarding capital expenditure and staff hiring also improved, with the former reaching the highest in the survey history. That said, the recovery in demand and sustained supply issues are projected to drive strong inflationary pressures domestically and internationally, notably for raw materials, energy and fuel. This in turn weighed on the outlook for profits, which improved only slightly from the previous survey period. Japan's economy remains precariously placed, as policymakers battle to balance improved demand as the economy fully reopens, with the risks of inflation, a depreciating currency and the wider impacts of the Russia-Ukraine war."

energy and fuel prices, ongoing supply chain disruption, and a weakening yen could weigh on future output. Other risks to the outlook included the prolongation of the Russia-Ukraine war, geopolitical tensions with China and the zero-COVID strategy pursued in China.

Firms project stronger inflationary pressures

Cost pressures are set to build in Japan over the coming year. The net balance of firms expecting non-staff costs to rise increased from +24% in February to a record high of +32% in June as firms widely projected strong rises in raw material prices, especially from abroad as firms also commented on fears that the yen would depreciate further over the course of the year. At the same time, the net balance of firms anticipating greater staff costs rose from +35% in February to +46% in June; the highest figure since this series began in February 2019.

As a result, expectations for output charges hit a fresh series peak, as a net balance of +29% of businesses anticipated higher selling prices.

Hiring intentions strengthen to highest on record

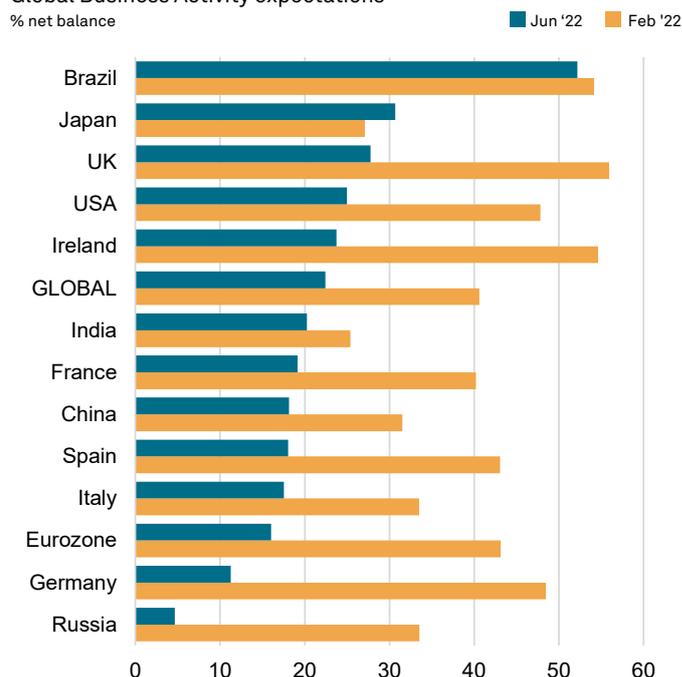
Hiring intentions strengthened in June as more private sector businesses expected employment to rise over the next year. The level of confidence rose to the strongest in the history of the survey, as a net balance of +23% of firms expected to increase their staff numbers. Manufacturers forecasted a slightly stronger rate of job creation compared to service providers, though in both cases expectations improved since February.

Capital spending over the next 12 months was projected to rise further in June. A net balance of +14% of firms expected to increase their capital expenditure, with optimism at service providers reaching a four-year high. Meanwhile, companies continued to express relatively subdued expectations around future R&D spending, with a net balance of just +7% of businesses forecasting higher expenditure in this area, little-changed from +6% February.

Rising cost burdens set to weigh on profitability growth

The net balance of Japanese private sector businesses expecting profits to increase over the coming year improved only slightly from +14% in February to +15% in June. That said, confidence regarding future earnings in Japan was stronger than the global average (+3%) and the second-joint highest of comparable countries (on a par with India). Both service providers and manufacturers expressed optimism, however the level of positive sentiment at manufacturers dipped to a two-year low amid concerns around higher input costs.

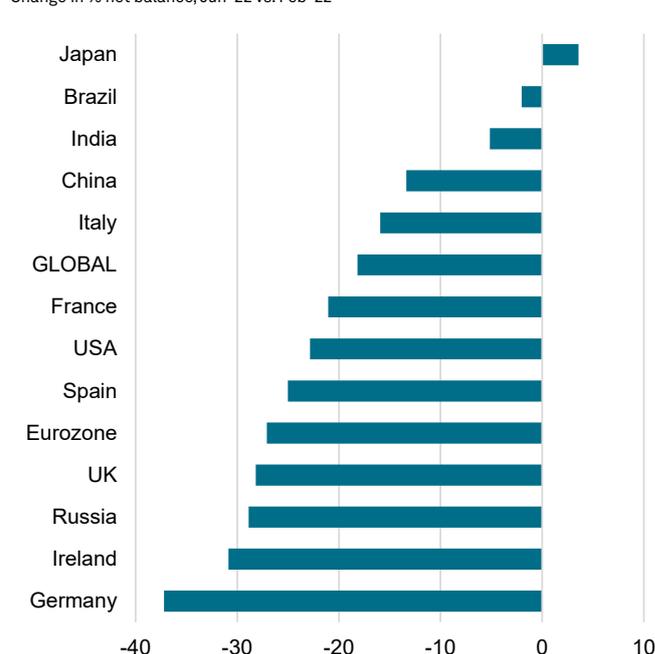
Global Business Activity expectations



Source: S&P Global.

Global Business Activity expectations

Change in % net balance, Jun '22 vs. Feb '22



Source: S&P Global.

Full data available on request from economics@ihsmarkit.com.

Survey methodology

The Global Business Outlook Survey for worldwide manufacturing and services is produced by S&P Global and is based on a survey of around 12,000 manufacturers and service providers that are asked to give their thoughts on future business conditions. The reports are produced on a tri-annual basis, with data collected in February, June and October.

Interest in the use of economic surveys for predicting turning points in economic cycles is ever increasing and the Business Outlook survey uses an identical methodology across all nations covered. It gives a unique perspective on future business conditions from Global manufacturers and service providers.

The methodology of the Business Outlook survey is identical in all countries that S&P Global operates. This methodology seeks to ensure harmonization of data and is designed to allow direct comparisons of business expectations across different countries. This provides a significant advantage for economic surveillance around the globe and for monitoring the evolution of the manufacturing and services economies by governments and the wider business community.

Data collection is undertaken via the completion of questionnaires three times a year at four-month intervals. A combination of phone, website and email are used, with respondents allowed to select which mechanism they prefer to use.

The Business Outlook survey uses net balances to indicate the degree of future optimism or pessimism for each of the survey variables. These net balances vary between -100 and 100, with a value of 0 signalling a neutral outlook for the coming 12 months. Values above 0 indicate optimism amongst companies regarding the outlook for the coming 12 months while values below 0 indicate pessimism. The net balance figure is calculated by deducting the percentage number of survey respondents expecting a deterioration/decrease in a variable over the next twelve months from the percentage number of survey respondents expecting an improvement/increase.

Questionnaires are sent to a representative panel of around 12,000 manufacturing and services companies spread across the global economy in the countries mentioned above. Companies are carefully selected to ensure that the survey panel accurately reflects the true structure of each economy in terms of sectoral contribution to GDP, regional distribution and company size. This panel forms the basis for the survey. The current report is based on responses from around 8,000 firms.

Contact

Usamah Bhatti
Economist
T: +44 1344 328 370
E: usamah.bhatti@ihsmarkit.com

Joanna Vickers
Corporate Communications
T: +44-207-260-2234
E: joanna.vickers@spglobal.com

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